

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Tecumseh District Library	County Lenawee
Fiscal Year End June 30, 2007	Opinion Date August 10, 2007	Date Audit Report Submitted to State August 20, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Tecumseh District Library  
Tecumseh, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Tecumseh District Library

Tecumseh, Michigan

BOARD OF TRUSTEES

June 30, 2007

Ms. Anne Walker	President
Ms. Nancy Smith	Vice-President
Ms. Susan Gilmore	Secretary
Ms. Barb Hoeffner	Treasurer
Ms. Carolyn Feldkamp	Trustee
Ms. Geeta Kandpal	Trustee
Ms. Karen Stoops	Trustee

Tecumseh District Library

TABLE OF CONTENTS

June 30, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-iv
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-14
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	15

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Tecumseh District Library  
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Tecumseh District Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tecumseh District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Tecumseh District Library as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

August 10, 2007

Tecumseh District Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The management's discussion and analysis of Tecumseh District Library's (the Library) financial report provides an overview of the Library's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Library's financial statements which follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's General Fund.

**Statement of Net Assets/Statement of Activities**

The following table shows, in a condensed format, the Library's net assets in comparison to the previous year:

	June 30,		Increase (Decrease) from Prior Year
	2006	2007	
<b>Assets</b>			
Current and other assets	\$ 1,959,723	\$ 2,071,336	\$ 111,613
Capital assets	<u>2,319,228</u>	<u>2,408,518</u>	<u>89,290</u>
Total assets	4,278,951	4,479,854	200,903
<b>Liabilities</b>			
Current liabilities	<u>14,175</u>	<u>16,975</u>	<u>2,800</u>
<b>Net Assets</b>			
Invested in capital assets	2,319,228	2,408,518	89,290
Restricted for permanent endowment	145,335	151,398	6,063
Unrestricted	<u>1,800,213</u>	<u>1,902,963</u>	<u>102,750</u>
Total net assets	<u>\$ 4,264,776</u>	<u>\$ 4,462,879</u>	<u>\$ 198,103</u>

The net assets of the Library increased by \$198,103 in the current year and were \$4,462,879 at year end.

Tecumseh District Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2007

The following table shows the changes of the net assets:

	June 30,		Increase (Decrease) from Prior Year
	2006	2007	
<b>Revenue</b>			
Property taxes	\$ 657,632	\$ 695,451	\$ 37,819
Penal fines	99,922	101,319	1,397
Other	<u>158,987</u>	<u>120,204</u>	<u>( 38,783 )</u>
Total revenue	916,541	916,974	433
<b>Expenses</b>	<u>581,709</u>	<u>718,871</u>	<u>137,162</u>
<b>Changes in Net Assets</b>	<u>\$ 334,832</u>	<u>\$ 198,103</u>	<u>\$ ( 136,729 )</u>

The Library's revenues increased by \$433 in the current year. The increase was a result of increases in property tax revenue offset by decreases in operating contributions in the current year. Property taxes increased due to an increase in taxable values of property. Operating contributions decreases arose from one-time donations received by the Library during the prior year.

The Library's expenses increased by \$137,162 in the current year. The increase was primarily due to the renovation completed on the Library's entrance and adjoining sidewalks as well as the parking lot.

#### **The Library's Fund**

The Library's only fund is the General Fund. Included in the assets of the General Fund are an endowment checking account and an endowment investment account. These accounts represent funds donated to the Library, which the Library Board has committed to using within certain self-imposed guidelines. Also included in the assets of the General Fund is the Herrick book permanent endowment investment account. This account was established in October 2004 with funds donated to the Library by the Herrick Foundation in memory of Kenneth G. Herrick. The principal donation of \$150,000 is permanently restricted and the investment earnings from the permanent endowment are to be spent on books for the Library.

#### **Budgetary Highlights**

On June 20, 2007, the Library amended the budget to adjust for various events that occurred during the year. The main item adjusted in the amended budget was the capital outlay. This adjustment was necessary because of additional cost incurred in the exterior renovation project that was not originally budgeted for.

#### **Capital Asset and Debt Administration**

At June 30, 2007, the Library had approximately \$2.4 million (net of depreciation) invested in capital assets. During the current year, the Library purchased the following significant capital asset items: a comprehensive site improvement project that included substantial replacement of the library's parking lot and landscaping improvements, as well as additional library materials (books, software, and audio-visual materials).

The Library has no long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**Economic Factors and Next Year's Budget**

A renovation of the Library's interior lighting is slated to begin during the 2007-2008 fiscal year. This project will be broken down into stages, beginning with the entrance to the library. Strategic planning is on the calendar for fall. Library consultants will be hired to assist the Library Board, staff, Friends, and patrons as we embark on setting goals for the future development of Library services. Once the strategic plan is completed, a technology plan will be developed to complement the goals of the library and meet the increasing demands of Library users for quicker, more efficient and independent service.

The Library will be joining other libraries across the state in a statewide interlibrary loan system that is patron driven. It is expected, based on the experience of libraries already part of the network, that staff time, interloan traffic and supplies will see a definite increase.

State funding for libraries is slowly disappearing; state aid has been cut and may not be part of the next state budget. Michigan's bleak economic climate has had a negative impact on the financial support the library traditionally enjoys from local civic groups. Their ability to raise funds is lessened as the unemployment rate rises. The 2007-2008 budget reflects these factors.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's Office.



## **BASIC FINANCIAL STATEMENTS**

Tecumseh District Library

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 326,443
Accounts receivable	101,319
Inventory	1,240
Prepays	4,270
	<hr/>
Total current assets	433,272
Noncurrent assets	
Cash and cash equivalents - restricted	165,429
Investments	1,326,150
Investments - restricted	146,485
Capital assets not being depreciated	348,000
Capital assets being depreciated, net	2,060,518
	<hr/>
Total noncurrent assets	4,046,582
	<hr/>
TOTAL ASSETS	4,479,854
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	8,960
Other accrued liabilities	7,015
Unearned revenue	1,000
	<hr/>
Total current liabilities	16,975
	<hr/>
<b>NET ASSETS</b>	
Invested in capital assets	2,408,518
Restricted for permanent endowment	151,398
Unrestricted	1,902,963
	<hr/>
TOTAL NET ASSETS	<u><u>\$ 4,462,879</u></u>

See accompanying notes to financial statements.

Tecumseh District Library  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Recreation and cultural	<u>\$ 718,871</u>	<u>\$ 17,037</u>	<u>\$ 5,200</u>	\$ (696,634)
General revenues				
Property taxes				695,451
State aid - unrestricted				6,802
Penal fines				101,319
Investment earnings				<u>91,165</u>
Total general revenues				<u>894,737</u>
Change in net assets				198,103
Net assets, beginning of the year				<u>4,264,776</u>
Net assets, end of the year				<u>\$ 4,462,879</u>

See accompanying notes to financial statements.

Tecumseh District Library

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2007

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 326,443
Cash and cash equivalents - restricted	165,429
Investments	1,326,150
Investments - restricted	146,485
Accounts receivable	101,319
Inventory	1,240
Prepays	<u>4,270</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,071,336</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 8,960
Accrued liabilities	7,015
Deferred revenue	<u>1,000</u>
<b>TOTAL LIABILITIES</b>	16,975
<b>FUND BALANCE</b>	
Reserved for	
Inventories	1,240
Prepays	4,270
Permanent endowment	151,398
Unreserved	
Designated for endowment	712,713
Designated for property tax budget year	341,238
Undesignated	<u>843,502</u>
<b>TOTAL FUND BALANCE</b>	<u>2,054,361</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 2,071,336</u></u>

See accompanying notes to financial statements.

Tecumseh District Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental fund** \$ 2,054,361

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 2,909,969
Accumulated depreciation is	<u>(501,451)</u>

Capital assets, net	<u>2,408,518</u>
---------------------	------------------

<b>Net assets of governmental activities</b>	<u><u>\$ 4,462,879</u></u>
--	----------------------------

See accompanying notes to financial statements.

Tecumseh District Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND

Year Ended June 30, 2007

	<u>General</u>
REVENUES	
Property tax	\$ 695,451
Penal fines	101,319
State aid	6,802
Photocopy/fax fees	4,804
Fines and fees	12,233
General investment income	38,914
Gifts	5,200
Endowment investment income	42,372
Realized and unrealized gains on investments	<u>9,879</u>
 TOTAL REVENUES	 916,974
EXPENDITURES	
Recreation and cultural	
Current	
Staff	430,646
Collections	83,336
Office	8,979
Programs	6,625
Professional services	25,125
Insurance	17,406
Communications	4,492
Utilities and services	26,278
Cleaning and maintenance	17,656
Capital outlay	<u>187,618</u>
 TOTAL EXPENDITURES	 <u>808,161</u>
 NET CHANGE IN FUND BALANCE	 108,813
 Fund balance, beginning of year	 <u>1,945,548</u>
 Fund balance, end of year	 <u><u>\$ 2,054,361</u></u>

See accompanying notes to financial statements.

Tecumseh District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

**Net change in fund balances - governmental fund** \$ 108,813

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 252,476	
Depreciation expense	<u>(163,186)</u>	
Excess of capital outlay over depreciation expense		<u>89,290</u>

**Change in net assets of governmental activities** \$ 198,103

See accompanying notes to financial statements.

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Library was created on December 20, 2002 through a District Library Agreement entered into by the Tecumseh Public School District (the "School District") and the City of Tecumseh (the "City"); however, until June 30, 2003, the School District was responsible for all expenses of the Library and the Library continued to be reported as a fund of the School District.

On July 1, 2003, the Library became an independent district library. The Library services a portion of the residents of the Townships of Adrian, Franklin, Macon, Raisin, Ridgeway, and Tecumseh, as well as the City of Tecumseh. The Library is governed by a seven-member board elected from the Library District.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Tecumseh District Library. The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's major fund.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.



NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted and as amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of a checking account and savings accounts, as well as certificates of deposit with an original maturity of 90 days or less.

A portion of the cash and investments are classified as restricted cash because their use is limited. The General Fund's restriction is related to the permanent endowment.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Cash, Cash Equivalents, and Investments - continued

Investments include fixed income securities and certificates of deposit with an original maturity greater than 90 days from the date of purchase. All investments are stated at market value.

7. Inventory and deferred revenue

Inventory and deferred revenue consists of the acquisition of Harry Potter books and the collection of funds for those books which were being held for distribution in July 2007. Inventory is stated at cost.

8. Receivables

Receivables consist of State aid, penal fines, and amounts due from other governmental units.

9. Property Taxes

Property tax receivable is shown as net of an allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each December 1 on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on February 28, at which time penalties and interest are assessed.

The 2006 taxable valuation of the communities included in the Library District totaled approximately \$594,906,002, on which ad valorem taxes levied consisted of 1.1472 mills for the Library's operating purposes. The ad valorem taxes levied based on this were approximately \$682,476. This amount, net of adjustments for board of review adjustments, Michigan Tax Tribunal adjustments, and personal property taxes returned delinquent, is recognized in the General Fund as tax revenue.

Since the Library's fiscal year covers the period from July 1 through the following June 30, as of the end of the fiscal year, the Library board has designated one-half of the December 1 levy to be used to finance the operations of the first half of the ensuing fiscal year. Accordingly, \$341,238 of property taxes related to the December 1 levy is reported as "designated for property tax budget year".

10. Prepays

Prepays consist of expenditures representing costs applicable to future periods. These prepaids recorded in the governmental fund do not reflect current expendable resources and therefore, an equal portion of fund balance is reserved.

11. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	15 - 30 years
Library materials	3 - 5 years
Furniture, fixtures, and equipment	5 - 10 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Tecumseh District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Tecumseh District Library.

As of June 30, 2007, the carrying amount of the Library's deposits was \$1,251,634 and the bank balance was \$1,273,087 of which \$300,000 was covered by Federal depository insurance. The balance of \$973,087 was uninsured and uncollateralized. The cash and cash equivalents caption in the basic financial statements includes \$160 in imprest cash.

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments caption in the financial statements are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uninsured and unregistered for which the securities are held by the Library's agent in the Library's name -			
Federal Home Loan Mortgage notes	\$ 443,266	\$ 443,266	4.68 years
Federal Farm Credit notes	48,688	48,688	8 years
Federal National Mortgage Association notes	<u>220,759</u>	<u>220,759</u>	2.93 years
	<u>\$ 712,713</u>	<u>\$ 712,713</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the Library's investments were rated Aaa by Standard and Poor's.

Interest rate risk

The Library has adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investments, and limiting the average maturity in accordance with the Library's cash requirements.

Credit risk

The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in PA 20 of 1943, 129.91 section 1 and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Library will do business.

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

As of June 30, 2007, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 326,443
Cash and cash equivalents - restricted	165,429
Investments	1,326,150
Investments - restricted	<u>146,485</u>
	<u>\$ 1,964,507</u>

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated				
Land	\$ 348,000	\$ -	\$ -	\$ 348,000
Capital assets being depreciated				
Building and improvements	1,932,699	181,242	-	2,113,941
Library materials	226,541	69,265	-	295,806
Furniture, fixtures, and equipment	<u>150,253</u>	<u>1,969</u>	<u>-</u>	<u>152,222</u>
Subtotal	2,309,493	252,476	-0-	2,561,969
Less accumulated depreciation				
Building and improvements	( 189,230 )	( 85,136 )	-	( 274,366 )
Library materials	( 79,251 )	( 47,158 )	-	( 126,409 )
Furniture, fixtures, and equipment	<u>( 69,784 )</u>	<u>( 30,892 )</u>	<u>-</u>	<u>( 100,676 )</u>
Subtotal	<u>( 338,265 )</u>	<u>( 163,186 )</u>	<u>-0-</u>	<u>( 501,451 )</u>
Net capital assets being depreciated	<u>1,971,228</u>	<u>89,290</u>	<u>-0-</u>	<u>2,060,518</u>
Net capital assets	<u>\$ 2,319,228</u>	<u>\$ 89,290</u>	<u>\$ -0-</u>	<u>\$ 2,408,518</u>

**NOTE D: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule presented as required supplementary information, the Library's budgeted expenditures in the General Fund have been shown at the activity level. The approved budgets of the Library have been adopted at the activity level.

During the year ended June 30, 2007, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Operating expenditures			
Insurance	\$ 12,700	\$ 17,406	\$ 4,706

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE E: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or have been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2007:

Reserved for inventories	\$ 1,240
Reserved for prepaids	4,270
Reserved for permanent endowment	<u>151,398</u>
	<u>\$ 156,908</u>

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2007:

Designation for permanent endowment	\$ 712,713
Designated for property tax budget year	<u>341,238</u>
	<u>\$ 1,053,951</u>

**NOTE F: RISK MANAGEMENT**

The Library is exposed to various risks of loss for liability, property, employee dishonesty, workers' compensation, and employer's liability for which the Library carries commercial insurance.

**NOTE G: EMPLOYEE RETIREMENT PLANS**

Plan Description - Certain employees of the Library who were originally employed by the School District are eligible to participate in the Michigan Public Schools Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, Michigan, 48909.

Funding Policy - Employer contributions to the system are the result of implementation of the Finance Reform Act. Under these procedures, participating employers are required to contribute the full actuarial funding contribution amount to fund pension benefits.

The pension rate totaled 16.34 percent for the period July 1, 2006 through September 30, 2006, and 17.74 percent from the period October 1, 2006 through June 30, 2007 of the covered payroll plan. Basic plan members are required to contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Library's contributions totaled \$15,409 and basic plan members contributed \$3,354 for the year ended June 30, 2007, which equaled the required contributions in accordance with the requirements above. The Library made 100 percent of the required contributions in the current year and each of the two (2) preceding years.

The Library sponsors a defined contribution plan covering all full-time employees hired after July 1, 2004 and not covered under the MPERS plan. The plan, commonly known as a 403(b) plan, allows for contributions from both the employer and the employee. The Library is required to contribute 5 percent of the covered payroll of the plan. Basic plan members are not required to make contributions. The Library's contributions totaled \$8,383 for the year ended June 30, 2007, which equaled the required contribution in accordance with the requirements above.

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE H: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that there are restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2007:

Governmental activities	
Restricted for	
Permanent endowment	<u>\$ 151,398</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**



Tecumseh District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax	\$ 646,547	\$ 646,547	\$ 695,451	\$ 48,904
Penal fines	85,000	85,000	101,319	16,319
State aid	12,335	12,335	6,802	(5,533)
Photocopy/fax fees	2,200	2,200	4,804	2,604
Fines and fees	14,000	14,000	12,233	(1,767)
General investment income	22,000	22,000	38,914	16,914
Gifts	2,000	2,000	5,200	3,200
Book endowment income	7,500	7,500	-	(7,500)
Endowment investment income	-	-	42,372	42,372
Realized and unrealized gains on investments	-	-	9,879	9,879
Total revenues	791,582	791,582	916,974	125,392
EXPENDITURES				
Operating expenditures				
Staff	474,822	474,990	430,646	44,344
Collections	125,100	125,850	83,336	42,514
Office	13,150	12,400	8,979	3,421
Programs	8,500	8,500	6,625	1,875
Professional services	29,168	29,168	25,125	4,043
Insurance	12,700	12,700	17,406	(4,706)
Communications	4,000	4,800	4,492	308
Utilities and services	33,850	33,850	26,278	7,572
Cleaning and maintenance	23,450	26,450	17,656	8,794
Total operating expenditures	724,740	728,708	620,543	108,165
Capital outlay				
Land improvements	-	185,000	180,212	4,788
Building	5,000	5,000	3,000	2,000
Equipment	20,000	20,000	4,406	15,594
Undistributed	21,542	3,074	-	3,074
Total capital outlay	46,542	213,074	187,618	25,456
TOTAL EXPENDITURES	771,282	941,782	808,161	133,621
NET CHANGE IN FUND BALANCE	20,300	(150,200)	108,813	259,013
Fund balance, beginning of year	1,945,548	1,945,548	1,945,548	-0-
Fund balance, end of year	\$ 1,965,848	\$ 1,795,348	\$ 2,054,361	\$ 259,013

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Trustees  
Tecumseh District Library  
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of the Tecumseh District Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated August 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tecumseh District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Library rests with the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

## PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The condition noted in the preceding paragraph exists at Tecumseh District Library. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Library's annual financial statements and notes to the financial statements in accordance with GAAP. The Library relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Library consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness in internal control over financial reporting.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

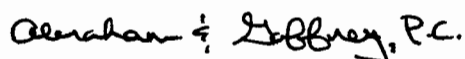
### VIOLATION OF BUDGETING ACT

As noted in the financial statements, one of the activities of the Library exceeded the amount appropriated. The variance noted was in the General Fund. This issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for its General Fund, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Library monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management and Board of Trustees of the Tecumseh District Library, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY P.C.  
Certified Public Accountants

August 10, 2007